YAD CAPITAL AG

INVESTMENT ADVISORY

MONTHLY NEWSLETTER

Q1 2024 • February 2024

Welcome

Dear Reader,

In this month's edition, we delve into a compelling analysis of the global investment landscape, spotlighting the striking contrast between the United States and India. The juxtaposition of these two nations—each at different stages of economic development—offers a unique lens through which we can examine current challenges and unearth investment opportunities.

The United States, emblematic of first-world affluence, grapples with issues reflective of its advanced stage of development. Among these, obesity stands out as a significant public health concern, with the Centers for Disease Control and Prevention (CDC) reporting that the prevalence of obesity was 41.9% in 2020. This epidemic has catalyzed a burgeoning demand for advanced medical treatments and pharmaceuticals, such as Ozempic (semaglutide), a medication originally approved for diabetes management that has gained notoriety for its weight loss benefits. The spotlight on such treatments underscores a broader narrative of first-world problems—where the consequences of abundance become central societal challenges.

Contrastingly, India, often labeled as a developing or third-world country, has demonstrated remarkable economic resilience throughout 2023. Despite facing its own set of challenges, including infrastructure needs and social disparities, India's economy has been a beacon of growth and stability. The International Monetary Fund (IMF) acknowledged India as a "bright spot" on the global stage, projecting its economy to grow at a robust pace. This growth is underpinned by a surge in digital innovation, a burgeoning middle class, and strategic reforms that have enhanced its attractiveness as an investment destination.

The divergence in the nature of challenges each country faces—India's spirited journey towards economic prosperity and the U.S.'s battle with lifestyle-induced health issues—highlights the varied investment themes that can arise from different stages of development. For investors, this presents a spectrum of opportunities: from healthcare and pharmaceuticals addressing first-world problems in the U.S. to infrastructure, technology, and consumer markets in India's rapidly growing economy.

As we navigate these dynamics, our editorial aims to equip you with insightful analysis and strategic perspectives to identify and leverage the unique opportunities that each country presents. Whether it's investing in the healthcare innovations targeting the U.S.'s obesity crisis or tapping into India's growth trajectory through technology and infrastructure, the potential for discerning investors is vast.

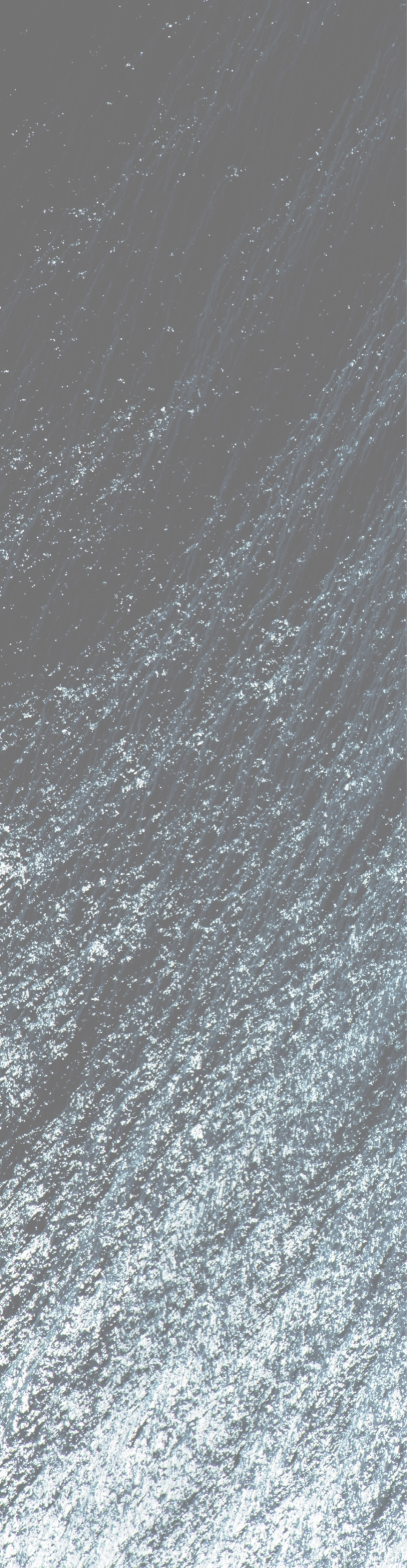
We invite you to join us in exploring these themes further, as we commit to providing you with the knowledge and insights necessary to make informed investment decisions in these contrasting yet equally compelling markets.

Your faithfully,

Dan Stemmer
Partner

Ygal Abergel
Managing Partner

Damjan Csiba, CFA
Portfolio Manager



What changed in our active allocations?

Equity - Geography

We have increased our allocation to India, seeing growth opportunities available.

Equity - Sector

We have increased our holdings in the Consumer Staples.
While the IT sector has seen strong growth, we have not changed our allocation to this sector.

Fixed Income

Our *Growth Portfolio* has an average yield to maturity (YTM) of 6.33 vs. 7.68 modified duration.
Our *Yield Portfolio* has an average YTM of 6.78 vs. 5.70 modified duration.
Our *Return Portfolio* has an average YTM of 4.80 vs. 7.31 modified duration.
Considering it being election year in the US, we expect internal pressure to arise to have interest rate cuts sooner rather than later; we have therefore taken the position not to modify our holdings.

Our holdings are made up of mainly investment grade bonds from developed countries, however, we still hold small exposure to bonds from emerging markets and high yield. The average credit rating according to S&P's methodology is BBB for Yield and Growth while A-/BBB+ for Return. As and if yields compress, we will move further down the rating and shorter the duration.

Our Current Active Allocations

Asset Class	Overweight	Underweight
Equity - Geography	India, Israel, France, Switzerland and Emerging Markets in general	Australia, United States and Developed Markets in general
Equity - Sector	Consumer Staples, Energy and Healthcare	Financials, IT, Communications and Real Estate

Index Returns

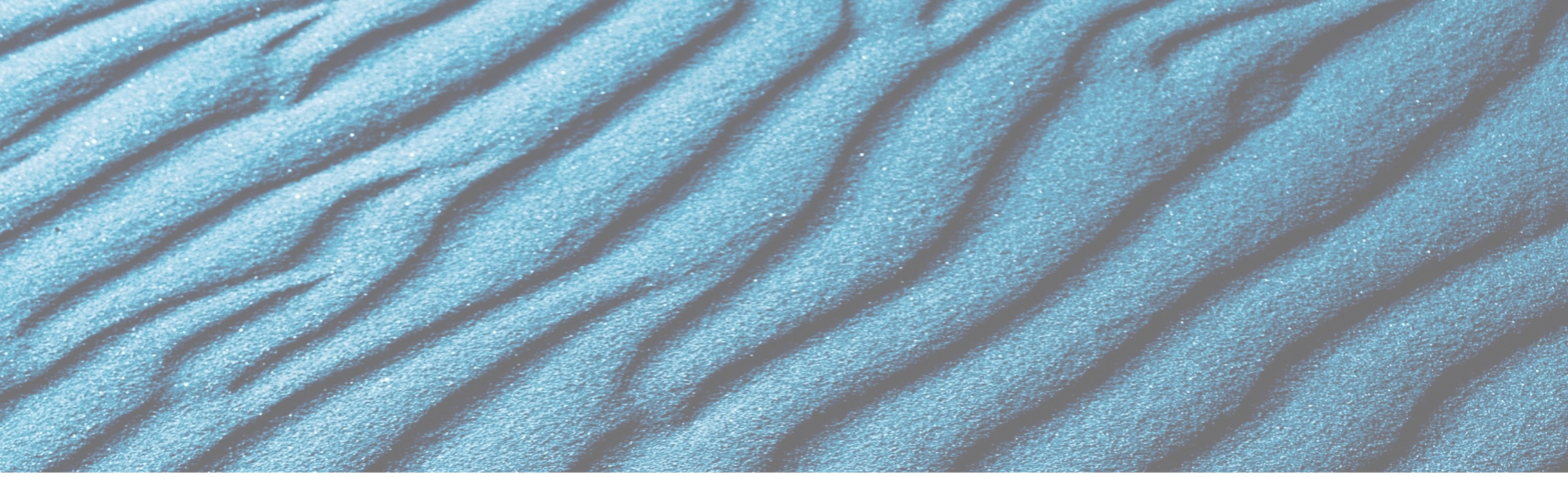
YTD 2024

Index	YTD Performance
Euro STOXX 50	3.53%
Tel Aviv 125	-2.01%
Nasdaq 100	4.84%
S&P 500	3.44%
iShares $ Corp Bond UCITS ETF (LQDA)	0.96%

Currencies	YTD Performance
USD/ILS	1.14%
USD/CHF	1.75%
USD/JPY	3.97%
GBP/USD	0.27%
EUR/USD	-1.64%

Commodity	YTD Performance
WTI Crude	3.03%
Gold	-0.63%
Silver	-2.14%
Copper	-0.95%
Wheat	-0.29%

As at Friday, 02 February 2024, 12:00am CET



Macro Analysis

United States

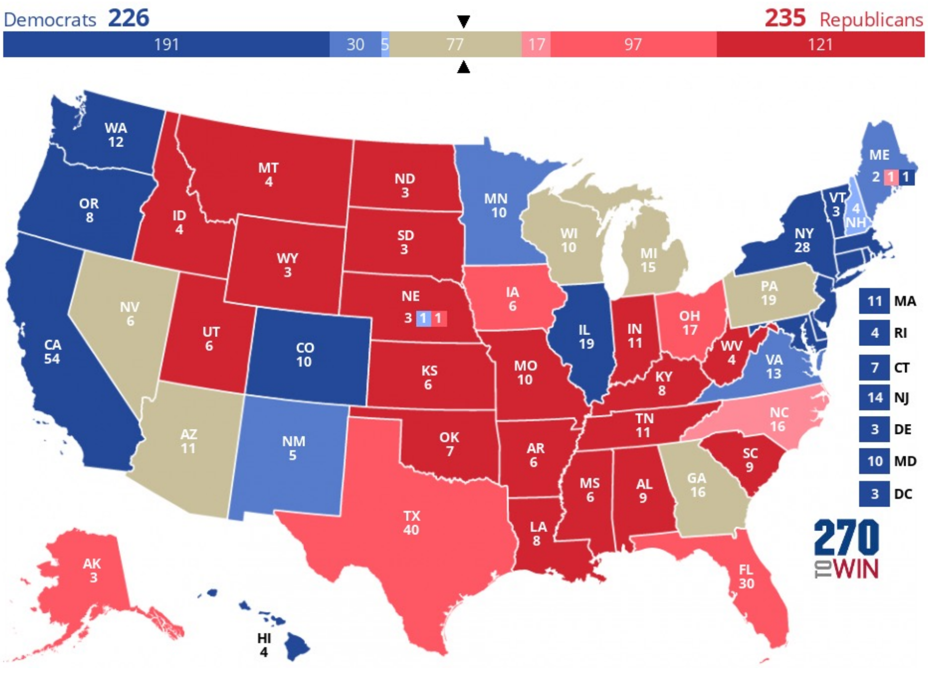
The United States stands out for its remarkable navigation towards a 'soft landing' amid the turbulence of post-pandemic recovery and inflationary pressures. The anticipation of a reduction in interest rates in the near future further bolsters this outlook, signaling a potential easing of monetary policy to support sustained growth. The evolution of artificial intelligence (AI) is poised to contribute positively to the US economy, enhancing productivity and output without exerting upward pressure on inflation.

The upcoming presidential elections are poised to play a pivotal role in shaping the US economy and its fiscal policy landscape. Historically, incumbent presidents have sought to influence election outcomes by adopting more lenient fiscal policies as Election Day approaches. *(source: BusinessInsider, GoldmanSachs Intelligence)* This trend raises the possibility of increased pressure on the Federal Reserve to lower interest rates earlier rather than delaying such adjustments. Our analysis suggests that these dynamics could significantly impact market expectations and investment strategies in the near term.

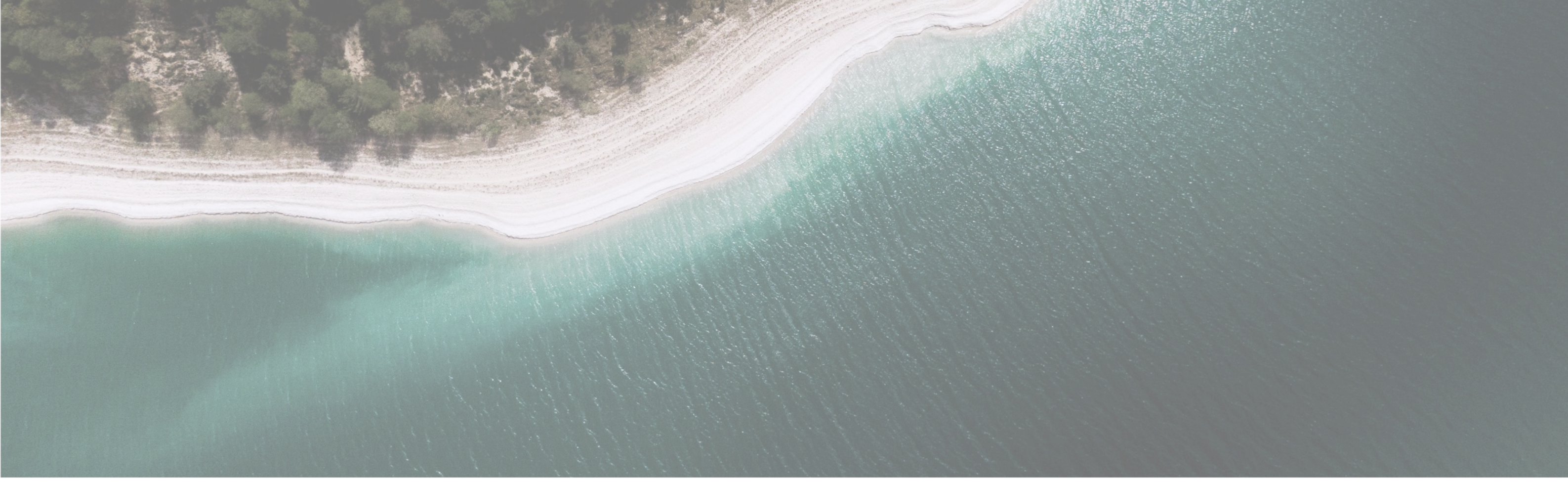
Considering the downturn in consumer activity, it's anticipated that households will pivot their spending towards essential goods, moving away from discretionary luxury items. In response to this shift in consumer behavior, we are adjusting our investment strategy to Overweight Consumer Staples. This reallocation reflects our belief in the resilience of essential goods consumption during periods of economic uncertainty and that the valuation became too low after the appearance of strong weight loss drugs, leading to less food consumption.

In light of the challenges NYCB Bank has encountered, including their acquisition of Signature Bank's assets, which significantly expanded their portfolio and exposed them to heightened regulatory scrutiny, as well as their historical focus on commercial real estate lending, a sector currently in decline, we hold a pessimistic view on the Financial sector. NYCB's provisioning of approximately $552 million for potential losses, coupled with realized net charge-offs of $185 million, underscores the sector's vulnerabilities. As a result NYCB's stock fell by 44.76% between 30.01.2024 to 02.02.2024 (11:27am CET). These factors contribute to our caution and decision to maintain an underweight allocation in light of the anticipated interest rate decline in 2024.

Considering the recent developments, it's important to note that Aozora Bank's stock plummeted by a significant 33% on Friday, 02.02.2024, primarily due to their exposure to bad loans in the struggling US commercial real estate market. *(source: YahooFinance.com)*



A sea of red, source: 270towin.com



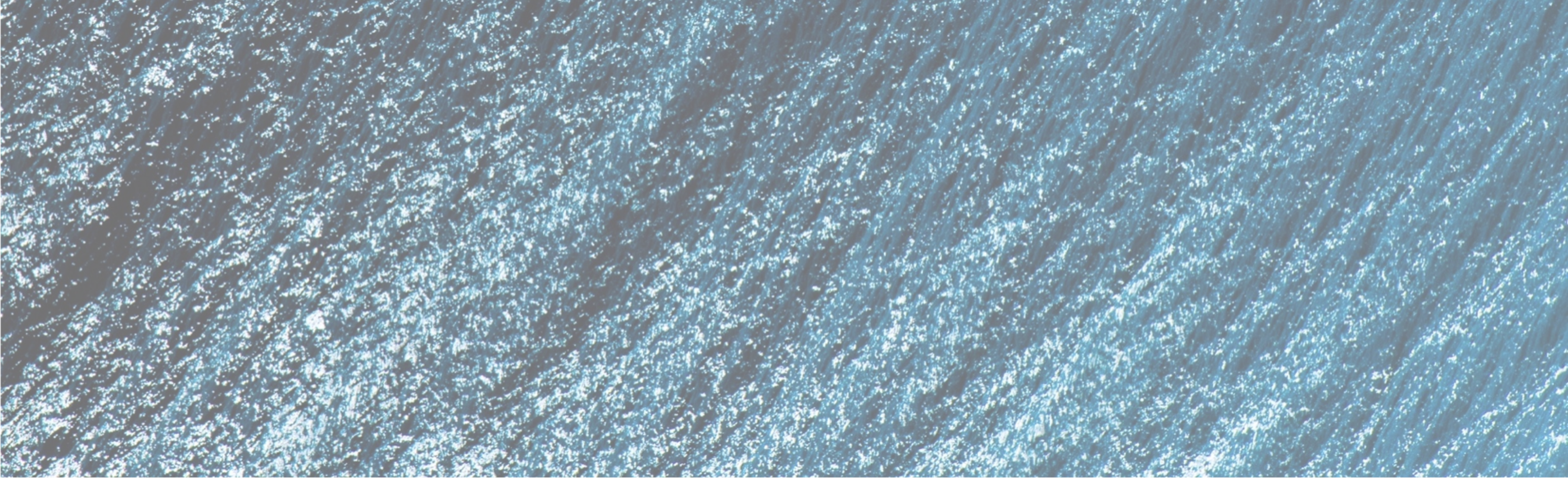
United States

During the fourth quarter of 2023, we noted the reduction in the S&P 500's profit margin, further pointing towards the disinflationary measures in the US. We have therefore decided to Overweight our positions in opportunities in Value and Quality stocks.
Although, against the backdrop of global uncertainties, the S&P 500 exhibited remarkable resilience, closing the year on a high note with notable gains that underscored the strength and adaptability of the U.S. equity market.

Simultaneously, a growing opportunity within the U.S. investment landscape is the private debt sector for real estate. Amid the cautious stance of traditional lenders, real estate investors are increasingly turning to alternative financing sources to meet their capital requirements. These alternative lenders offer bridge financing, a form of short-term funding that supports investors in stabilizing and preparing their projects for subsequent long-term financing from institutional sources. This trend underscores the strategic shift towards more flexible, interim financial solutions in the real estate sector, highlighting the adaptability of investors in navigating the current lending landscape. To capitalize on this growing industry, YAD will begin increasing allocations to managers in the US bridge loan industry, while reducing its exposures to UK debt for Real Estate.

Eurozone

The Consumer Price Index (CPI) within the Eurozone has persisted in its downward trend into January 2024 (2.8%), signaling a longer disinflationary phase. This pattern has led to anticipations that the European Central Bank (ECB) may consider reducing interest rates in the first half of the year to stimulate economic activity. Concurrently, projections for the EU's GDP growth in 2024 remain subdued, with GDP growth in Q4/2023 being 0%, and Q3/2023 having been -0.1%



China

The Chinese economy, once hailed as an unstoppable engine of growth, has begun to show signs of vulnerability, with several critical challenges coming to the fore as we move further into the year. Notably, the real estate sector, a cornerstone of China's economic expansion, has hit a crisis point. High-profile defaults by major property developers have exposed systemic risks within the sector, leading to wider concerns about financial stability and consumer confidence.

Compounding these economic pressures are demographic challenges, as China faces a shrinking population due to decades of the one-child policy, now impacting its labor market and long-term growth potential.

This is in stark contrast to its near-neighbor, India, whose growing and youthful population offers a demographic advantage poised to fuel economic growth. While China grapples with the economic repercussions of a saturated property market and an aging society, India's demographic dynamics position it as an emerging economic powerhouse, with a vast pool of young talent ready to drive innovation and productivity.

Additionally, escalating hostilities towards Taiwan and the intense rivalry with the United States over trade, technology, and geopolitical influence have heightened uncertainties, potentially affecting foreign investment and trade flows.

India

Exploring the compelling growth potential of India becomes particularly insightful when juxtaposed with Italy's economic metrics. In 2023, Italy achieved a GDP of $2.06 trillion, supported by a population of 59.11 million, translating to a GDP per capita of approximately $35,600. In stark contrast, India's GDP reached $3.73 trillion the same year, with a significantly larger population of 1.428 billion, resulting in a GDP per capita of just $2,256. This disparity highlights not just the difference in economic output relative to population size but underscores India's vast untapped potential for growth. The divergences extend beyond mere numbers; factors such as labor availability, employment rates, and the demographic profile of the workforce position India on a trajectory for substantial economic expansion. The similarity in GDP figures between India and Italy, juxtaposed with their vastly different demographic landscapes, paints a picture of India's ripe opportunity for sustained growth in the coming decades.

Country	GDP 2023	Population	GDP per Capita
Italy	$2.06 TR	0.059 BN	~$35,600
India	$3.73 TR	1.43 BN	~$2,256

Source: TradingEconomics.com

Contrastingly, while the U.S. grapples with 'first world problems' such as managing the consequences of technological disruption on employment and addressing environmental concerns, India's growth opportunities are deeply tied to addressing basic infrastructural needs and unlocking the potential of its digital economy. Where the U.S. is looking to innovate in advanced technology sectors like AI, biotech, and green energy, India's immediate growth prospects are closely linked to building a more inclusive digital framework and addressing foundational economic structures. This dichotomy highlights the differing stages of economic development and priorities between the two nations, with India positioned to leapfrog into digital and sustainable development, capitalizing on its demographic and entrepreneurial strengths.

Opposed to a challenging global macro-environment in 2023, India has shown resilience and highlights itself as a destination for growth. However, as lucrative as opportunities go, our concern remains on suitable exit opportunities for strong individual investments. Without a viable exit plan, an investment can quickly turn from profitable to disastrous.

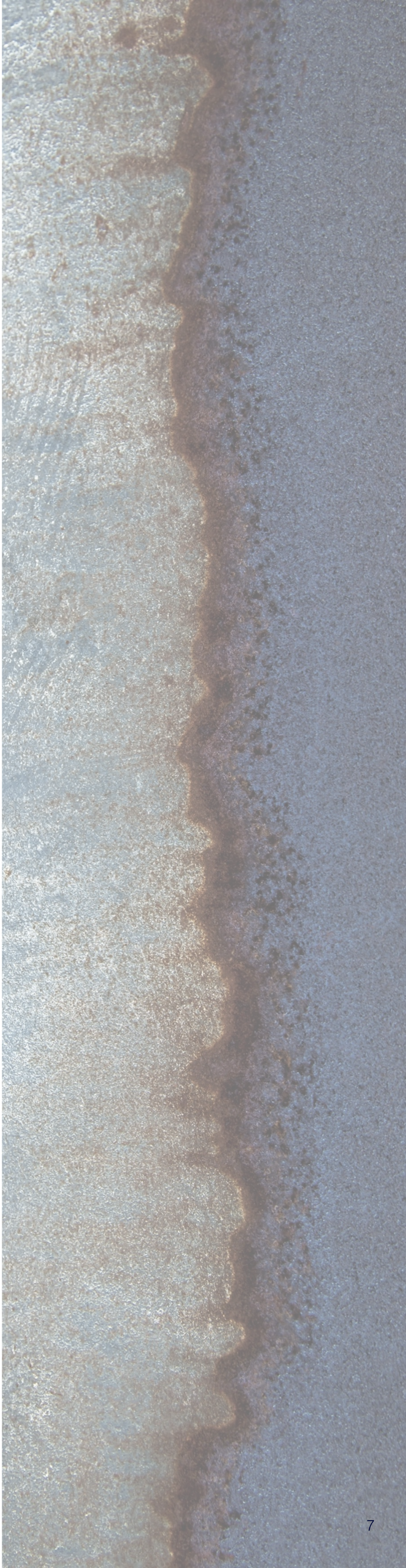
Considering this, we have increased our exposure to India via the Ishares India Small Cap, giving us exposure to a large basket of high growth companies.

Closing Thoughts

As we draw our insights to a close, the global economic outlook for 2024 presents a mosaic of challenges and opportunities. The economic landscape is marked by significant tremors in China, where the real estate crisis and potential new health crises loom large, threatening not only domestic stability but also global supply chains. The European Union, not immune to adversity, faces its own set of trials with a weakening economy exacerbated by fiscal deficits in countries like Greece, Italy, and Spain, alongside societal unrest and political shifts towards more extreme ideologies. These factors collectively underscore a period of recalibration and resilience as each region grapples with its unique set of hurdles.

In stark contrast, India emerges as a beacon of potential, uniquely positioned to capitalize on its status as a developing country amidst this global uncertainty. Unlike the US, which confronts 'first world problems' such as obesity and the societal implications of technological disruption, India's challenges revolve around infrastructural development and harnessing its demographic dividend. This contrast offers India a unique advantage, as it focuses on foundational economic growth and digital inclusion, poised to leapfrog into future technologies and sustainable development. India's trajectory, fueled by a young population, growing digital infrastructure, and entrepreneurial spirit, stands in vivid contrast to the matured economies of the US and EU. As such, it represents a compelling narrative of growth and opportunity, inviting investors to reconsider where the most significant long-term opportunities may lie in a rapidly changing world.

Good Investing.



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